

Fiscal Estimate - 2025 Session

☒ Original ☐ Updated ☐ Corrected ☐ Supplemental

LRB Number 25-0284/1	Introduction Number AB-0017
Description creating an employee ownership conversion costs tax credit, a deduction for capital gains from the transfer of a business to employee ownership, and an employee ownership education and outreach program	
Fiscal Effect	
State:	
<div style="display: flex; flex-wrap: wrap;"><div style="width: 33%;"><input type="checkbox"/> No State Fiscal Effect</div><div style="width: 33%;"><input type="checkbox"/> Indeterminate</div><div style="width: 33%;"><input type="checkbox"/> Increase Existing Revenues</div></div> <div style="display: flex; flex-wrap: wrap; margin-top: 5px;"><div style="width: 33%;"><input type="checkbox"/> Increase Existing Appropriations</div><div style="width: 33%;"><input checked="" type="checkbox"/> Decrease Existing Revenues</div><div style="width: 33%;"><input checked="" type="checkbox"/> Increase Costs - May be possible to absorb within agency's budget</div></div> <div style="display: flex; flex-wrap: wrap; margin-top: 5px;"><div style="width: 33%;"><input type="checkbox"/> Decrease Existing Appropriations</div><div style="width: 33%;"><input type="checkbox"/> Create New Appropriations</div><div style="width: 33%;"><div style="display: flex; justify-content: space-between;"><input type="checkbox"/> Yes<input checked="" type="checkbox"/> No</div></div></div> <div style="display: flex; flex-wrap: wrap; margin-top: 5px;"><div style="width: 33%;"><input type="checkbox"/> Decrease Costs</div></div>	
Local:	
<div style="display: flex; flex-wrap: wrap;"><div style="width: 33%;"><input type="checkbox"/> No Local Government Costs</div><div style="width: 33%;"><input type="checkbox"/> Indeterminate</div><div style="width: 33%;">5. Types of Local Government Units Affected</div></div> <div style="display: flex; flex-wrap: wrap; margin-top: 5px;"><div style="width: 33%;">1. <input type="checkbox"/> Increase Costs</div><div style="width: 33%;">3. <input type="checkbox"/> Increase Revenue</div><div style="width: 33%;"><input type="checkbox"/> Towns</div></div> <div style="display: flex; flex-wrap: wrap; margin-top: 5px;"><div style="width: 33%;"><input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory</div><div style="width: 33%;"><input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory</div><div style="width: 33%;"><input type="checkbox"/> Villages</div></div> <div style="display: flex; flex-wrap: wrap; margin-top: 5px;"><div style="width: 33%;">2. <input type="checkbox"/> Decrease Costs</div><div style="width: 33%;">4. <input type="checkbox"/> Decrease Revenue</div><div style="width: 33%;"><input type="checkbox"/> Counties</div></div> <div style="display: flex; flex-wrap: wrap; margin-top: 5px;"><div style="width: 33%;"><input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory</div><div style="width: 33%;"><input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory</div><div style="width: 33%;"><input type="checkbox"/> Others <input type="text" value="0"/></div></div> <div style="display: flex; flex-wrap: wrap; margin-top: 5px;"><div style="width: 33%;"><input type="checkbox"/> School Districts</div><div style="width: 33%;"><input type="checkbox"/> WTCS Districts</div></div>	

Fiscal Estimate Narratives

DOR 2/18/2025

LRB Number	25-0284/1	Introduction Number	AB-0017	Estimate Type	Original
Description creating an employee ownership conversion costs tax credit, a deduction for capital gains from the transfer of a business to employee ownership, and an employee ownership education and outreach program					

Assumptions Used in Arriving at Fiscal Estimate

The bill creates tax incentives related to businesses in this state converting to an employee ownership business structure. The Department of Revenue may certify a business to claim a nonrefundable income tax credit for an amount equal to 70 percent of costs related to converting the business to a worker-owned cooperative or 50 percent of the costs related to converting the business to an employee ownership trust or an employee stock ownership plan. The credit is limited to a maximum amount of \$100,000. The Department of Revenue may only allocate \$5,000,000 in credit each year.

The bill also requires the Department of Revenue to establish an education and outreach program for the purpose of promoting employee ownership plans and worker-owned cooperatives through education, outreach, technical assistance, and training related to converting existing business to an employee ownership business structure.

The bill also creates an individual income tax subtraction and a corporate income franchise tax exemption for the amount of the capital gain realized from the transfer of ownership of a business in this state to an employee stock ownership plan, a worker-owned cooperative, or an employee ownership trust. Under the bill.

Fiscal Estimate

The fiscal impact of the credit could be as high as \$5 million annually if all credits are certified and claimed. To the extent that the Department of Revenue allocated fewer credits, the fiscal impact will be commensurately lower.

The fiscal effect of the capital gains exemption is unknown and would depend on the number of businesses and the amount of gain. The fiscal estimate could be significant if a large number of businesses convert, or if the conversion of businesses produce large amount of capital gains. The amount will vary from year to year. Any fiscal effect from the capital gains exemption would be in addition to the \$5 million credit allocation.

The bill will incur a one-time cost of \$136,000 to change tax documents and set up the education and outreach program. The bill will incur an on-going cost of an estimated \$300,000 annually to contract with an outside entity to administer. Congress has not appropriated funds for the grant intended to fund the education and outreach program. These costs cannot be absorbed within the Department's budget.

Long-Range Fiscal Implications

Fiscal Estimate Worksheet - 2025 Session

Detailed Estimate of Annual Fiscal Effect

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Description creating an employee ownership conversion costs tax credit, a deduction for capital gains from the transfer of a business to employee ownership, and an employee ownership education and outreach program	
I. One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect): The bill will incur a one-time cost of \$136,000 to change tax documents and set up the education and outreach program. The bill will incur an on-going cost of \$300,000 to maintain the program. Congress has not appropriated funds for the grant intended to fund the education and outreach program. These costs cannot be absorbed within the Department's budget.	
II. Annualized Costs:	Annualized Fiscal Impact on funds from:
	Increased Costs Decreased Costs
A. State Costs by Category	
State Operations - Salaries and Fringes	\$136,000
(FTE Position Changes)	
State Operations - Other Costs	300,000
Local Assistance	
Aids to Individuals or Organizations	
TOTAL State Costs by Category	\$436,000
B. State Costs by Source of Funds	
GPR	
FED	436,000
PRO/PRS	
SEG/SEG-S	
III. State Revenues - Complete this only when proposal will increase or decrease state revenues (e.g., tax increase, decrease in license fee, etc.)	
	Increased Rev Decreased Rev
GPR Taxes	\$
GPR Earned	
FED	
PRO/PRS	
SEG/SEG-S	
TOTAL State Revenues	\$
NET ANNUALIZED FISCAL IMPACT	
	<u>State</u> <u>Local</u>
NET CHANGE IN COSTS	\$436,000
NET CHANGE IN REVENUE	\$
Agency/Prepared By	Authorized Signature
DOR/ Zach Petersen (608) 267-2428	Michael Oakleaf (608) 261-5173
	Date
	2/18/2025